

IMPACT OF NON-CONFORMING TO THE 2016 IRC

Individual Income Tax

Earned Income Tax Credit permanent benefit for 3+ children and married households.

This provision is not in effect until Tax Year 2018 and later.

Above-the-line deduction for teacher classroom expenses permanent and indexed.

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot take the educator expenses deduction on line 24 of the IA 1040. The educator expenses in excess of the amount taken as an adjustment to gross income when calculating federal AGI can also be taken as a federal itemized deduction subject to the 2% limit on miscellaneous itemized deductions. Taxpayers can deduct the educator expenses on line 19 of the IA Schedule A even when they did not, or could not, deduct these expenses on the federal Schedule A because they used the \$250 election on the face of the federal 1040.

Deduction for State and local general sales taxes made permanent.

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot take the general sales taxes deduction on the IA 1040, Schedule A. Taxpayers must elect to take either state and local income taxes or general sales taxes on the federal Schedule A. If the election to deduct income taxes is made for federal, the same election will carry over to the Iowa Schedule A. Taxpayers who elected to deduct sales taxes for federal purposes can deduct income taxes on the Iowa Schedule A since Iowa does not have the option to deduct sales taxes.

Tax-free IRA distributions to certain public charities for individuals 70-1/2 or older permanent

If Iowa does not couple with the IRC as of 1/1/2016, Iowa taxpayers must include these distributions in their Iowa income, and they may then take the deduction that would be allowed for the contribution under 26 U.S.C. § 170 if the distribution had been included in federal income, subject to any Iowa adjustments listed in Iowa Code § 422.9. Essentially, a 70-1/2 year old making such a charitable distribution will be entitled to the same Iowa tax treatment as a 69 year old making the same contribution to the same organization.

Parity for employer-provided parking and mass transit benefits permanent

If Iowa does not couple with the IRC as of 1/1/2016, employees who used pretax dollars to pay for mass transit must add back to their Iowa taxable income the amount they excluded for federal purposes that is above the maximum Iowa exclusion. For tax year 2016, the maximum Iowa exclusion for mass transit was \$130 per month.

Expensing limitations for section 179 property made permanent and indexed

The PATH Act set the 2016 federal section 179 limit at \$500,000 and phase-out threshold at \$2,010,000. If Iowa does not couple with the IRC, including the PATH Act, as of 1/1/16, then the Iowa section 179 limit is \$25,000 and the phase-out threshold is \$200,000 for tax year 2016. Also, off-the-shelf computer software is not qualifying property for purposes of expensing under IRC section 179(b) for Iowa tax purposes. The IA 4562A Iowa Depreciation Adjustment Schedule must be completed for tax year 2016 to reflect the adjustment to Iowa net income if the taxpayer claimed the larger federal section 179 limit or threshold.

Extend special rules for qualified conservation contributions permanently

Taxpayers may claim a federal deduction of up to 50% of their federal AGI (100% for certain farmers and ranchers) for qualified conservation contributions (as defined in 26 U.S.C. § 179(h)) made during the tax year. If Iowa does not couple with the IRC as of 1/1/2016, Iowa taxpayers are only allowed a deduction of up to 30% of their federal AGI for such conservation contributions. This means that if an Iowa taxpayer claimed a deduction in excess of 30% of their federal AGI on their federal return, they would have to reduce that amount to no more than 30% of their federal AGI in order to claim an Iowa deduction on the Iowa return. Please note that no

amount of a contribution for which the Iowa Charitable Conservation Contribution Tax Credit was claimed may be deducted at all for Iowa income tax purposes, regardless of whether Iowa couples with the increased federal deductions.

Extend and expand charitable deduction for contributions of food inventory permanently

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers who make charitable contributions of food inventory must add back to Iowa taxable income any amount deducted for federal purposes.

Basis adjustment to stock of S corporations making charitable contributions permanent

When an S-corporation makes a charitable contribution, and passes the deduction for that contribution through to its shareholders for tax purposes, each shareholder must reduce that shareholder's basis in their stock in the S-corporation. However, if Iowa does not couple with the IRC as of 1/1/2016, the basis adjustment will be different for Iowa income tax purposes than for federal income tax purposes.

For federal purposes, the shareholder reduces their basis in the S-corporation by the shareholder's pro rata share of the adjusted basis of the property that the S-corporation contributed to the charity.

If Iowa does not couple with the IRC as of 1/1/2016, then for Iowa purposes, taxpayers will simply reduce their basis in their stock in the S-corporation by the amount of the charitable deduction that the S-corporation passed through to that shareholder.

If the shareholder later sells the stock, the gain or loss realized from the sale may be different for Iowa purposes than for federal purposes.

Exclusion of 100% gain on small business stock permanent

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers who deduct the gain from the sale of qualified small business stock acquired on or after January 1, 2015, must add back to Iowa taxable income 50% of the gain from the sale. Note that this deduction has a five-year holding period requirement, and an Iowa adjustment is only necessary for stock acquired on or after January 1, 2015. Iowa is still coupled with the IRC for stock purchased prior to January 1, 2015.

Bonus depreciation (sunset 12/31/19)

Iowa is not coupled with federal bonus depreciation for assets acquired in 2016. The IA 4562A Iowa Depreciation Adjustment Schedule must be completed for tax year 2016 to reflect the adjustment to Iowa net income if bonus depreciation was taken on the federal return. Iowa references to federal AGI must also reflect federal AGI as adjusted for disallowance of bonus depreciation.

Discharge of indebtedness on principal residence excluded from gross income (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot exclude from AGI the discharge of indebtedness on principal residence.

Premiums for mortgage insurance deductible as qualified residence interest (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot take the qualified mortgage insurance premiums deduction on the IA 1040, Schedule A.

Above-the-line deduction for qualified tuition and related expenses (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot deduct tuition and fees on line 24 of the IA 1040. For federal purposes, taxpayers may be able to claim the tuition and fees deduction or as a business expense deduction; however they cannot deduct the same expenses twice. Taxpayers can take the educational expenses as a business expense deduction for Iowa purposes even when they did not, or could not, deduct these expenses for federal purposes because they took the tuition and fees deduction on the federal return.

Special allowance for second generation biofuel plant property (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers that take the bonus depreciation allowance under section 168(l) for federal purposes will have to add back the depreciation

allowance to adjusted gross income and make other adjustments to federal adjusted gross income as necessary.

Energy efficient commercial building deduction (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot take the energy efficient commercial building deduction on the IA 1040, Schedule A.

Work opportunity tax credit (sunset 12/31/19)

In practice, if Iowa does not couple with the IRC as of 1/1/2016, it has no effect on the subtraction from Iowa income for amounts by which federal AGI was increased as a result of the work opportunity credit. Iowa taxpayers may still subtract from their Iowa net income any amounts that were included in federal adjusted gross income as a result of the taxpayer's receipt of the work opportunity credit. This answer applies to both individual and corporate income taxes. Taxpayers may subtract the amount of the work opportunity tax credit allowable for the tax year under section 51 of the IRC to the extent that the credit increased their federal adjusted gross income.

Corporation Income Tax

Expensing limitations for section 179 property made permanent and indexed

The PATH Act set the 2016 federal section 179 limit at \$500,000 and phase-out threshold at \$2,010,000. If Iowa does not couple with the IRC, including the PATH Act, as of 1/1/16, then the Iowa section 179 limit is \$25,000 and the phase-out threshold is \$200,000 for tax year 2016. Also, off-the-shelf computer software is not qualifying property for purposes of expensing under IRC section 179(b) for Iowa tax purposes. The IA 4562A Iowa Depreciation Adjustment Schedule must be completed for tax year 2016 to reflect the adjustment to Iowa net income if the taxpayer claimed the larger federal section 179 limit or threshold.

Extend special rules for qualified conservation contributions permanently

Generally all corporations' deductions for charitable contributions, including charitable conservation contributions are limited to 10% of the corporation's taxable income, both for federal and for Iowa purposes. Under the PATH Act, certain corporations that are qualified farmers or ranchers, as defined in the Act, can take a deduction for certain qualifying conservation contributions equal to up to 100% of their income, minus the amount of other allowable charitable contributions. If Iowa does not couple with the IRC as of 1/1/2016, all corporations subject to Iowa income tax are limited to an Iowa deduction of no more than 10% of their taxable income, even if they qualify for the 100% federal deduction. Please note that no amount of a contribution for which the Iowa Charitable Conservation Contribution Tax Credit was claimed may be deducted at all for Iowa income tax purposes, regardless of whether Iowa couples with the increased federal deductions .

Extend and expand charitable deduction for contributions of food inventory permanently

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers who make charitable contributions of food inventory must add back to Iowa taxable income any amount deducted for federal purposes.

Bonus depreciation (sunset 12/31/19)

Iowa is not coupled with federal bonus depreciation for assets acquired in 2016. The IA 4562A Iowa Depreciation Adjustment Schedule must be completed for tax year 2016 to reflect the adjustment to Iowa net income if bonus depreciation was taken on the federal return. Iowa references to federal AGI must also reflect federal AGI as adjusted for disallowance of bonus depreciation.

15-year depreciation for restaurant and retail improvements permanent

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers who make qualified leasehold, retail, and restaurant property improvements will have a 39-year life for calculating depreciation instead of a 15-year recovery period. The "placed in service" date will control how taxpayers treat the asset.

Expansion of reduction in S corporation recognition period for built-in gains tax permanent

If Iowa does not couple with the IRC as of 1/1/2016, Iowa will use a ten-year recognition period for the built-in gain tax. Entities that realize a built-in gain after the five-year federal recognition

period and within the ten-year Iowa recognition period are subject to the built-in gain tax for Iowa purposes.

Exception under subpart F for active financing income permanent

If Iowa does not couple with the IRC as of 1/1/2016, Iowa businesses with foreign subsidiaries that deducted their active financing income for federal purposes must add this income to their Iowa taxable income in the year the active financing income is earned.

Work opportunity tax credit (sunset 12/31/19)

In practice, if Iowa does not couple with the IRC as of 1/1/2016, it has no effect on the subtraction from Iowa income for amounts by which federal AGI was increased as a result of the work opportunity credit. Iowa taxpayers may subtract the amount of the work opportunity tax credit allowable for the tax year under section 51 of the IRC to the extent that the credit increased their federal adjusted gross income.

Look-through treatment of payments between CFCs (sunset 12/31/19)

If Iowa does not couple with the IRC as of 1/1/2016, dividends, interest, rents and royalties received or accrued from related CFCs as foreign personal holding company income will no longer be excluded income for Iowa purposes.

Special allowance for second generation biofuel plant property (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers that take the bonus depreciation allowance under section 168(l) for federal purposes will have to add back the total amount of depreciation to adjusted gross income, subtract the amount of depreciation allowable under MACRS, and make other adjustments as necessary for purposes of calculating Iowa net income.

Energy efficient commercial building deduction (sunset 12/31/16)

If Iowa does not couple with the IRC as of 1/1/2016, taxpayers cannot take the energy efficient commercial building deduction on the IA 1040, Schedule A.

Restriction on tax-free spinoffs involving REITS

If Iowa does not couple with the IRC as of 1/1/2016, businesses that use spinoffs involving REITs will still qualify for tax-free distributions under IRC 355 for Iowa purposes.

Disclaimer: Please be advised that this is an informational document. It should not be relied upon or otherwise cited as precedent. This information is subject to change at any time. If a member of the public wishes to request a binding decision, he or she must file a Petition for Declaratory Order pursuant to 701 IAC 7.24.